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Lenders 'cool' to Dubai World offer

Dubai: Sat, 1 May 2010



Dubai World, which is in talks to restructure \$26 billion in debt, is offering lenders an additional 1 per cent in interest upon maturity of new debt, but the deal is unlikely to satisfy banks, according to analysts.

The state-owned conglomerate's offer is for a one per cent interest rate and one per cent payment-in-kind, a source familiar with the matter said, an upgrade from an opening one per cent interest rate offer which was rejected as being too low.

A Dubai government spokeswoman said there was no change to the initial terms, which called for a cash interest payment as well as a payment-in-kind but did not outline the interest rates offered.

'The government has not presented a revised offer or improved terms, there has been no change to the original proposal,' she said. Dubai unveiled a \$9.5 billion rescue plan for Dubai World and its property unit Nakheel in March.

The source, who asked not to be identified, said Dubai World added the one per cent payment-in-kind option, a lump sum interest payment at the end of a loan maturity, to sweeten the offer.

Another person familiar with the process said: '(It's) fish market haggling over prices, only this is played out in the media.'

Dubai World is in talks with a core panel of seven banks - five foreign and two local - which represents more than 97 creditors.

A two per cent total rate may still be seen as low by local lenders whose borrowing costs are higher compared with some of the foreign banks on the panel.

'For local banks the difference between their cost of funding and the offered rate is still high, it creates a funding mismatch,' said one banking expert.

Under Dubai's debt deal, lenders would receive new debt covering the \$14.2 billion they are owed over five to eight years at an undisclosed commercial rate.

The plan is to be partly funded by asset sales, with any shortfall guaranteed by the government. 'It's a step in the right direction but I am not sure the offer will be overwhelmingly accepted by the creditors,' said John Bates, head of fixed income at asset management firm Silk Invest in London.

'It's looking closer now but there's still quite a gap between the current level (2 per cent) and the level being offered to trade creditors.'

Nakheel's trade creditors have been offered repayment through a mix of 40 per cent cash and 60 per cent in a sukuk, with a 10 per cent annual return.

In contrast, Dubai Electricity and Water Authority (DEWA) offered an 8.5 per cent coupon on a recent bond issue.

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'If you think Dewa's offer, which is not part of the Dubai World group, was priced at 8.5 per cent, I feel that it really ought to be at that kind of level,' Bates added. 'I would say 4 to 5 per cent interest rates is the kind of level that is likely to be an acceptable offer.'

Some analysts and bankers say that despite lenders' dissatisfaction with the offer, they may ultimately accept the offer. If lenders reject the proposal, the matter would go to a special tribunal which is untested and would further delay repayment.

'If this is the proposal put on the table, local banks are likely to support (it) even though they are not happy,' said bank analyst Janany Vamadeva at HC Brokerage. -**Reuters**

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